

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF WASHINGTON
AT SEATTLE

GILLANI CONSULTING INC., a Delaware corporation,

Plaintiff,

V.

DAEWOO HEAVY INDUSTRIES AMERICA CORPORATION (now named DOOSAN INFRACORE AMERICA CORPORATION), a New York Corporation,

Defendant.

CASE NO. C05-0823-JCC

FINDINGS OF FACT AND CONCLUSIONS OF LAW

I. INTRODUCTION

This matter comes before the Court on a three-day bench trial. This case involves breach of contract and copyright claims against Defendant Daewoo by Plaintiff Gillani. Gillani is the successor in interest to intellectual property which was originally owned by FourGen and licensed to Daewoo. In its original Complaint, Gillani claimed that Daewoo breached the License Agreement and infringed Gillani's copyright by using the relevant software on non-designated computers, and allowing this software to be used by a greater number of users than permitted under the License Agreement. Prior to trial, Gillani abandoned the user-count claim. Having heard all the evidence and considered the entire record herein,

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1 the Court finds and rules as follows.

2 **II. FINDINGS OF FACT**

3 **A. THE SOFTWARE AND THE EXECUTION OF THE WRITTEN CONTRACT
BETWEEN DAEWOO AND FOURGEN**

4 The software in question will be referred to simply as “the Software” for purposes of this Order.
 5 The Software runs on top of an Informix database management system, which in turn runs on top of the
 6 Unix operating system. It includes both enterprise management applications such as financial accounting,
 7 inventory, and purchasing applications. (Pretrial Order 4, Plaintiff’s Alleged Facts (Dkt. No. 30).) It also
 8 contains a computer-aided software engineering (“CASE”) environment for producing customized
 9 applications that adapt the Software to the customers’ specific business requirements. (*Id.*) The Software
 10 is intended to be significantly customized to the needs of each individual client. (*Id.*)

11 As testified by Steven Crouch—the former employee of Daewoo who was responsible for
 12 purchasing and implementing the Software for many years—Daewoo was interested in the Software’s
 13 marketed ability to improve the company’s product distribution management and accounting capabilities.

14 On September 14, 1994, the parties entered into the License Agreement (Pl.’s Ex. 1) and
 15 Amendment #1 (Pl.’s Ex. 2). On December 30, 1994, Daewoo executed and sent to FourGen a
 16 “Statement of Product” to purchase additional licenses to certain software modules. (Pl.’s Ex. 3.) These
 17 documents comprise the entire written contract between the parties concerning the licensing of the
 18 Software to Daewoo.

19 **B. DAEWOO AND FOURGEN’S ORIGINAL WORKING RELATIONSHIP**

20 In 1995, FourGen installed the Software at Daewoo’s New Jersey Office.¹ Although the
 21 hardware was physically located in New Jersey, it was primarily accessed over a fractional T-1 line by
 22 employees working out of Daewoo’s Cleveland office. As the Software was designed to be highly

23
 24 ¹ It is unclear precisely how the Software was configured with respect to its physical servers in
 25 New Jersey and whether the production and development environments were physically located on
 26 different servers. *See* discussion *infra*.

1 customized to Daewoo's uses, both FourGen and Daewoo spent a significant amount of time and
2 money modifying the base code and fixing the initial technical bugs. For more than six months,
3 commencing in the Fall of 1995, FourGen had its programmers at Daewoo's Cleveland office working
4 on bugs and writing code. (Travel Invoices (Def.'s Ex. 4).) From the Spring of 1995 through 1996,
5 FourGen produced approximately 2,600 bug patches for the Software.

6 The parties had a mutual interest in making sure that the code operated as designed. Daewoo
7 clearly had an interest in making sure that the programs it purchased ran its business applications
8 efficiently. FourGen had an incentive not only to help out its newest customer and ensure continued
9 patronage from it, but also because the Daewoo installation was only the second or third installation of
10 version 4.0 of the Software; accordingly, any improvements to the Daewoo installation could be used as
11 a model to help improve future versions of the Software for other clients. The parties thus characterized
12 their relationship as a mutual partnership whereby both parties could benefit from successful
13 implementation. Correspondence between the parties in 1995 went so far as to explore the prospect of
14 Daewoo taking on an equity position in FourGen as FourGen explored opportunities for marketing its
15 software technology on a worldwide basis. (Jim Robb Letter (Pl.'s Ex. 33.) During this process,
16 Daewoo—which previously had no technical support staff—began to hire a number of coders who
17 could customize the Software and fix its technical glitches in-house. In addition, Daewoo paid the travel
18 expenses of FourGen staff who flew out from Seattle to Daewoo's Cleveland office to work on the
19 Software.

20 **C. THE FIRST MOVE OF THE SOFTWARE**

21 Near the end of 1996, Daewoo decided to move its servers from its New Jersey office to its
22 Cleveland office. During this move, Daewoo decided to purchase a new server, an IBM 390 to run the
23 Software which would operate on a newer version of Unix. Daewoo contacted Steve Wells at
24 FourGen—FourGen's project manager for the Daewoo installation—regarding moving the Software to
25 the new server to discuss what implications such an upgrade would have on Daewoo's use of the
26

1 Software. During the negotiations that ensued, FourGen offered to give Daewoo a new version of the
2 Software, with the understanding that it would be installed on the IBM 390 computer. FourGen did not
3 charge Daewoo any money for this new Software. As Mr. Crouch testified and as is reflected in an
4 internal email from Mr. Crouch to Daewoo employees, FourGen representative Steve Wells orally
5 agreed to provide Daewoo with a second license for the Software that would allow Daewoo to operate
6 the Software on its new Cleveland server. (August 17, 1996 Email from Steven Crouch (Pl.'s Ex. 43).)
7 FourGen did not charge additional fees for this license, but agreed to the new configuration in exchange
8 for Daewoo providing FourGen access to Daewoo's proprietary "warranty, configuration, and material
9 rejection programming" code. (*Id.*)

10 In Cleveland, the Software was installed on two servers that were to operate in concert. One
11 server was used by Daewoo employees who accessed the Software for various business applications.
12 This server was known as the production environment. The other server was accessed only by Daewoo
13 programmers and FourGen programmers to make changes and modifications to the Software. This was
14 known as the development environment. FourGen was specifically aware of this configuration, which
15 was beneficial for Daewoo because it allowed for more efficient operation of the Software.

16 **D. DAEWOO AND FOURGEN LOSE CONTACT**

17 As time went on, the Software had fewer and fewer technical bugs. Daewoo had developed its
18 own staff of coders who could fix bugs with the Software. Fewer bug patches were needed and those
19 problems that did arise could be fixed in-house. FourGen's programmers had left Daewoo's Cleveland
20 office, and Daewoo's use of the Software had stabilized. By the end of 1996, FourGen and Daewoo
21 were no longer in regular contact with each other.

22 In the Summer of 1998, Daewoo moved its headquarters to Suwanee, Georgia. The move
23 included the relocation of Daewoo's Information Systems Department, including the computers on
24 which the Software had been installed.

25 //

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1 **E. THE 1999 MEETING BETWEEN H.K. SYSTEMS AND DAEWOO**

2 In October 1999, Daewoo attempted to contact FourGen to discuss a second move of the
 3 Software to an upgraded computer. In order to move the Software to the new computer, Daewoo
 4 needed an updated version of the CASE tools. Daewoo learned that FourGen had stopped operating
 5 under its former name and instead was operating under the name H.K. Systems. Mr. Crouch eventually
 6 identified and met with H.K. Systems Sales Representative Randy Randolph to discuss upgrading
 7 Daewoo's Servers. (October 19, 1997 Fax to Randy Randolph (Pl.'s Ex.19).)

8 The meeting took place at Daewoo's office in Suwanee, Georgia in October of 1999. At this
 9 meeting, Mr. Randolph apologized and informed Daewoo that H.K. Systems had moved on to version 5
 10 of the Software and did not support version 4, which was the version Daewoo was using at the time.
 11 Further, he stated that there was no "migration path" to the new version of the Software. In layperson's
 12 terms, that meant that there was no means to move the data from an earlier version of the Software to
 13 the most recent version. As such, H.K. Systems was unable to provide Daewoo with any help in moving
 14 the Software to a new computer. Mr. Randolph did, however, offer to sell Daewoo an out-of-the-box
 15 copy of the newest version of the Software. Use of this new version would essentially entail throwing
 16 out the code that had been highly customized to Daewoo's uses at its significant expense and starting
 17 from scratch.² During this 1999 meeting, there was no mention of a transfer fee or a license fee in
 18 connection with the movement of the Software, despite the fact that Daewoo made it known that it was
 19 attempting to move the Software to new servers.

20
 21
 22 ² Plaintiff contended at trial that the existence of a migration guide to version 5 of the Software at
 23 the time of this meeting makes it unlikely that Mr. Randolph would have said that there was no migration
 24 path. In light of Mr. Crouch's credible and specific recollection of that meeting, the Court finds that
 25 Defendant's version of the facts is accurate and that, even if the guide was in existence at the time of the
 meeting, Mr. Randolph either was not aware of it or failed to communicate anything reflecting his
 knowledge of it to Daewoo's representatives.

1 Believing that H.K. Systems could offer no assistance, Daewoo scoured the country for other
 2 companies that could assist it in a software move. Daewoo eventually found and purchased the
 3 necessary CASE tools from Fourth Generation Software Solutions (FGSS) located in Atlanta, Georgia.
 4 FGSS was a wholly independent company from FourGen, that acted as a value-added-reseller of
 5 FourGen CASE tools. Using the CASE tools purchased from FGSS, Daewoo moved the Software to
 6 upgraded computers in 2000, 2001, and 2004.

7 **F. GILLANI'S SUCCESSION TO FOURGEN'S INTERESTS**

8 In November 1997, FourGen changed its name to Endura Software Corporation. In February,
 9 2000, Endura Software Corporation changed its name to H.K. Systems SCS, Inc. In June, 2000, H.K.
 10 Systems SCS, Inc. changed its name to Irista, Inc. (Pl.'s Ex. 45, (Copyright Recordations).) On January
 11 25, 2002, Gillani acquired all intellectual property and contract rights in the Software from Irista, Inc.
 12 pursuant to an "Assignment of Intellectual Property Rights" and "Amendment 1 to the Asset Purchase
 13 Agreement," dated November 15, 2002. (*Id.*)

14 **G. DAEWOO'S INTRODUCTION TO GILLANI**

15 During March, 2004, two Gillani executives, Mark Feldman and Syed Kamal³ visited Daewoo's
 16 offices in Suwanee. Though Gillani pitched the meeting as a way to forge a new business relationship, it
 17 quickly became apparent that a major purpose of that meeting was to seek compensation for what
 18 Gillani thought was a breach of the previous licensing agreement between FourGen and Daewoo. After
 19 assessing Daewoo's use of the Software at the time of the meeting, Mr. Syed conducted a PowerPoint
 20 presentation in which he informed the Daewoo representatives that it would cost \$441,000 to bring the
 21 company back into compliance with the original licensing agreement. (Gillani Presentation (Pl.'s Ex. 5)).
 22 This figure represented back-pay for seven years of being off of license and support. Daewoo objected
 23 to any back-payments and the meeting ended without a new relationship having been established.

24
 25 ³ Syed Kamal's given name is Kamal and his surname is Syed. Accordingly, this Order will refer
 to him as Mr. Syed.

1 Gillani then sent a letter on April 19, 2004, following up on the presentation and suggesting both
2 that Daewoo bring its licensing agreement into compliance, and that it also purchase the newest version
3 of the Software. (April 24, 2004 Letter From Gillani to Daewoo (Pl.'s Ex. 10).) When Daewoo did not
4 respond to that letter, Gillani sent another letter on May 28, 2004, demanding payment of
5 \$3,758,265.00 within fifteen days "to bring [Daewoo's] current usage into compliance with the license
6 agreement" and threatening legal action if the demand was not met. (May 28, 2004 Letter from Gillani
7 to Daewoo (Pl.'s Ex. 11).) Tom Lattie, Daewoo's CFO, testified that, upon receipt of the May 28, 2004
8 letter from Gillani, he referred the matter to counsel. In June of 2004, Daewoo transferred the Software
9 to its present server.

10 **III. CONCLUSIONS OF LAW**

11 **A. BREACH OF CONTRACT CLAIM**

12 An assignee cannot acquire any rights in excess of what the assignor has the ability to transfer.
13 *Morse Elec. Prod. Corp. v. Beneficial Indus. Loan Co.*, 579 P.2d 1341, 1342 (Wash. 1978). Because
14 the assignment of intellectual property originally owned by FourGen and now assigned to Gillani is not
15 in dispute, the main issue is what rights Gillani's predecessor in interest FourGen had under the initial
16 contract and whether those rights were later waived.

17 Gillani claims that Daewoo violated its licensing agreement in two ways. First, Gillani claims that
18 Daewoo violated the Agreement by transferring the Software to new servers when Daewoo decided to
19 upgrade its hardware. Second, Gillani claims that Daewoo violated its agreement by running the
20 production and development portions of the Software on different servers.

21 Daewoo responds that the License Agreement only requires that the company have one copy of
22 the Software running at any one time. Daewoo argues that it was allowed to transfer the Software to a
23 new server, provided that it discontinued the use of the Software on the old computer. It also argues
24 that it was allowed to run the production and development portions of the Software on separate servers.
25 Daewoo argues in the alternative that, even if it did breach the technical language of the License
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1 Agreement, FourGen and its successors in interest waived the right to enforce certain provisions of the
2 License Agreement.

3 Thus, it is important to first look at the initial contract to see what its terms were as written, and
4 then examine whether FourGen or its successors waived any of its terms after the execution of the
5 written agreement.

6 **1. TERMS OF THE ORIGINAL FOURGEN-DAEWOO CONTRACT**

7 Because it involves the sale of software, the License Agreement at issue here is governed by the
8 Uniform Commercial Code (“UCC”), which has been adopted in Washington. A software license
9 agreement is subject to Article 2 of the UCC. *M. A. Mortenson v. Timberline Software Co.*, 998 P.2d
10 305 (Wash. 2000). Pursuant to the UCC, an “agreement” means “the bargain of the parties in fact as
11 found in their language or by implication from other circumstances including course of dealing or usage
12 of trade or course of performance.” Wash. Rev. Code § 62A.1-201(3).

13 The written agreement consists of the License Agreement (Pl.’s Ex. 1), Amendment #1 (Pl.’s
14 Ex. 2), and the Statement of Product (Pl.’s Ex. 3). “Where contractual language is unambiguous courts
15 will not read ambiguity into the contract.” *Syrovy v. Alpine Res., Inc.*, 859 P.2d 51, 54 (Wash. 1993)
16 (internal citations omitted). “An interpretation which gives a reasonable, fair, just and effective meaning
17 to all manifestations of intention is preferred to an interpretation which leaves a part of such
18 manifestations unreasonable, imprudent or meaningless.” *Pub. Util. Dist. No. 1 of Lewis County v.*
19 *Wash. Pub. Power Supply Sys.*, 705 P.2d 1195, 1209 (Wash. 1985). The written terms of the contract,
20 unambiguously contemplate use of the Software on one specific piece of hardware. Any transfers of the
21 Software to an upgraded computer—even if use on the initial computer ceased—would thus constitute
22 a violation of this written agreement.

23 This interpretation is first supported by the contract’s language regarding use on a “Designated
24 Computer.” The License Agreement states: “Licensee may access the Software lawfully licenced to the
25 Licensee on any configuration of computers or display devices connected to the Designated Computer

1 provided the Software is installed or executes solely on the Designated Computers(s)." (License
2 Agreement 1.) The "Definitions" section of the Agreement defines "Designated Computer" as "*the*
3 specific Computer upon which the application software is compiled or installed and executed, and which
4 is designated by Licensee in Appendix A attached hereto, or in a Statement of Product." (License
5 Agreement 1(emphasis added).) Appendix A lists an IBM 380 as the Designated Computer. (License
6 Agreement 9.) This specification of a specific computer clearly indicates the parties' intentions to limit
7 use of the Software to the single IBM 380 listed in Appendix A. The Statement of Product, defining
8 how many users lawfully could use the product, also lists the IBM 380 as the "Designated Computer"
9 and provides a specific U.S. postal address for the location of the Designated Computer. (Statement of
10 Product 1.) Thus, the language in the contract pertaining to the Designated Computer unambiguously
11 indicates that only one piece of physical hardware will constitute the Designated computer, and that this
12 computer is the IBM 380 located at Daewoo's New Jersey office at the address listed in the Statement
13 of Product.

14 That the objectively manifested intent of the parties was to limit the License Agreement to one
15 computer is further evident from the restriction on transferring the program. The agreement specifies
16 that "[u]nless otherwise authorized by FourGen, Licensee may not install, electronically transfer, or
17 otherwise execute the FourGen *Enterprise* Software on any Computer other than the Designated
18 Computer." (License Agreement 1.) Daewoo's interpretation of the contract—that it was allowed to
19 move the Software to another computer so long as there was only one copy of the Software in
20 operation at any one time—does not make sense in light of this restriction on transferring, because it
21 would be impossible to get the Software to a new "designated computer" without electronically
22 transferring it.

23 The Agreement's obsolescence policy further bolsters this interpretation of the contract. The
24 obsolescence clause states: "[i]n the event FourGen elects to no longer Support or produce Product
25 Upgrades for the Software operating on a specific Computer, FourGen will offer to Users with
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1 Software licensed on such Computers the right to transfer their licenses for the Software to a
2 comparable Computer for a modest Transfer Fee.” This provision appears to envision a world in which,
3 if FourGen was still coming out with updates and otherwise generally supporting the Software when
4 Daewoo wanted to upgrade its hardware, Daewoo would have to pay FourGen to facilitate the transfer.
5 Read together with the earlier restriction preventing Daewoo from electronically transferring the
6 Software on its own, this interpretation of the contract makes sense. Absent an obsolescence provision,
7 Daewoo could have been left with no one who could legitimately transfer the Software to upgraded
8 hardware in the event that FourGen ceased supporting the product. Thus, this obsolescence provision
9 allowed Daewoo out of this potentially harsh situation by giving it the right to transfer to the Software
10 to another computer on its own should FourGen stop supporting the product *so long as Daewoo paid a*
11 *small transfer fee*. Thus, the license clearly constrained Daewoo’s use of the Software to the specific
12 IBM 380 listed as the Designated Computer and required that Daewoo either obtain FourGen’s
13 assistance in moving the Software to new hardware or pay it a small transfer fee in the event that
14 FourGen could not provide that assistance.

15 It is also clear that the written terms of the License Agreement state that different parts of the
16 Software, specifically the development and production (or “client”) environments, were to be run on the
17 same piece of physical hardware. The License Agreement states:

18 The standard FourGen license fees for FourGen CASE Tools Software apply only when
19 one Computer functions both as the client Computer and as the database server Computer.
20 More specifically, no function, such as database administration, or feature, such as the
21 database schema, of the FourGen CASE Tools Software may be performed or used on a
Computer other than the Designated Computer. A different license fee schedule for the
FourGen CASE Tools Software applies when the client Computer(s) is different from the
database server Computer(s).

22 (License Agreement 1-2.) This language clearly states that the production and the development
23 environments are to be conducted on a single computer and that additional fees or licensing would apply
24 should different parts of the Software be installed on multiple computers.

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1 The one exception in the written contract to the general rule that the Software could not be
2 transferred to anything but the Designated Computer was the provision for a backup copy. The contract
3 states that: "Licensee may make backup copies of the Software and of any portions thereof which are
4 modified or merged with other programs in accordance with this Agreement." Thus, Daewoo had the
5 option to make such a backup under the written contract for disaster recovery purposes. In addition to
6 the tape backups that existed at the time the contract was entered into, this rather broad language allows
7 Daewoo to make backup copies onto other, more modern, disaster recovery systems such as CDs, or
8 so-called hotlive backup systems.

9 In short, the contract as written contains strict language prohibiting the transfer of the Software
10 to any other computer but the IBM 380 and it also restricts the ability of the Software to have its
11 constituent parts run on multiple computers, even if there is only one whole version of the Software
12 running at any one time. The issue thus becomes whether FourGen or its successors in interest waived
13 any rights it had under the written agreement through its subsequent actions.

14 **2. THE PARTIES' CONDUCT AFTER EXECUTION OF THE CONTRACT**

15 Gillani is suing for transfers that took place in 2000, 2001, and 2004 and for the configuration of
16 the Software on different production and development servers for an unspecified period of time.
17 Daewoo argues that Gillani's predecessors in interest "waived" the right to enforce the contract because
18 of events that occurred prior to a hardware upgrade in 1997 and during a sales meeting in 1999. These
19 events will be addressed chronologically.

20 **i. UP TO AND INCLUDING THE 1997 TRANSFER**

21 Gillani is not suing for the transfer that occurred in 1997.⁴ Nevertheless, this transfer is relevant
22 because Gillani's predecessors in interest were aware of, and did not object to, Daewoo's transfer of the
23

24 ⁴ It is not entirely clear what the precise date of the 1997 transfer was. It may have been late 1996
25 as well, but for purposes of this Order it will be referred to as the 1997 transfer.

1 Software to computers other than the Designated Computer and housing the production and
 2 development software on different physical servers.

3 Mr. Crouch testified that, prior to making the move in 1997, he obtained authorization to put the
 4 Software on the new Cleveland Server by orally obtaining a “second license.” This testimony is
 5 corroborated by an email Mr. Crouch sent to several Daewoo employees on August 17, 1996, which
 6 states: “I have finished negotiations with Dickens Data and FourGen to allow us to establish a server for
 7 the Cleveland office. FourGen has agreed to provide a second license free of charge(list [sic] approx.
 8 \$500,000), in return we will provide them with access to our warranty, configuration and material
 9 rejection programming.” (Pl.’s Ex. 43.)

10 To be a valid modification of the original contract, the parties must follow the formalities of
 11 contract modification. Wash. Rev. Code. § 62A.2-209(3). Here, there appears to have been an offer and
 12 an acceptance by Mr. Crouch and Mr. Wells (though it is not precisely clear who made the offer and
 13 who made the acceptance). There was consideration for the modification because the “second license”
 14 was being provided in exchange for portions of Daewoo’s proprietary code regarding the “warranty,
 15 configuration, and material rejection programming” functionality. Yet, under the UCC’s Statute of
 16 Frauds, there must have also been a signed writing. Wash. Rev. Code. §§ 62A.2-201, 2-209(3). Here,
 17 there clearly was no such writing. Accordingly, there was no valid modification.

18 Under § 2-209(4) of the UCC, although an attempt at modification or rescission does not satisfy
 19 the Statute of Frauds, and thus cannot be a modification, it can operate as a waiver. Wash. Rev. Code. §
 20 62A.2-209(4). Thus, it is important to determine what precisely FourGen waived, if anything, by its oral
 21 agreement to a “second license” and through its subsequent conduct regarding the New Jersey-to-
 22 Cleveland move.

23 As it is commonly stated in Washington Law, “[a] waiver is the intentional and voluntary
 24 relinquishment of a known right.” *Jones v. Best*, 950 P.2d 1, 6 (Wash. 1998). The word “known” in the
 25 above definition “must be read as going only to the facts and not to their legal effect.” E. Allan
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1 Farnsworth, *Contracts* 541 n.6. (3d. ed. 1999). This seemingly simple definition is somewhat
2 misleading, however, in that “[w]hat is involved is not the relinquishment of a right and the termination
3 of the reciprocal duty but the excuse of the nonoccurrence of or a delay in the occurrence of a condition
4 of a duty.” *Id.* at 540-41. Thus, what is at issue here is *not* whether Gillani’s predecessors in interest
5 *modified* the contract’s terms by nullifying a particular provision of the contract. Rather the question is
6 whether any conditional duties under the contract were waived by events that occurred after the
7 contract was entered into.

8 Within the context of this case, Gillani’s performance consisted of allowing Daewoo to run the
9 Software without interference. Thus, the question is whether Gillani waived the right to interfere with
10 Daewoo’s use of the Software when Daewoo violated the License Agreement by not requiring Daewoo
11 to obtain authorization (via purchasing the right or otherwise) prior to (1) transferring the Software to
12 computers other than the designated computer, or (2) running the production and development versions
13 of the Software on different servers.

14 The existence of a clause requiring all waivers to be in writing does not prevent Gillani from
15 orally or otherwise waiving some of its rights through its subsequent actions. The License Agreement
16 states:

17 Any waiver, amendment, or modification of any right of the provisions of this Agreement
18 of any right, power or remedy hereunder shall not be effective unless made in writing and
19 signed by the parties. No failure or delay by either party in exercising any right, power or
remedy with respect to any of its rights hereunder shall operate as a waiver thereof in the
future.

20 Notwithstanding the language of this provision, FourGen or its successors in interest still had the ability
21 later to orally waive certain conditions and be estopped from revoking such a waiver. Wash. Rev. Code
22 § 62A.2-209(4); *see also Weber v. Briddle*, 483 P.2d 155, 159 (Wash. Ct. App. 1971) (“The mere
23 obtaining of a nonwaiver agreement does not give the insurer a right to do anything it may wish to
24 prejudice the rights of the insured and thereafter continue to rely upon the non-waiver agreement, since
25 such agreement may be waived by the insurer’s subsequent conduct.”) (*quoting* 16A J. Appleman,

1 *Insurance Law & Practice* § 9377 (Rev. ed. 1968.); *see generally* Arthur Linton Corbin, *Corbin on*
 2 *Contracts* § 40.13 (Joseph M. Perillo ed.) (Rev. ed. 1993 & Supp. 2006) (“At common law, an express
 3 provision in a written contract that no rescission or variation is valid unless it too is in writing will not
 4 invalidate a subsequent oral agreement to the contrary. Similarly, a provision that an express condition
 5 of a promise or promises in the contract cannot be eliminated by waiver, or by conduct constituting an
 6 estoppel, is wholly ineffective.”) Although clauses precluding oral *modifications* without a signed
 7 writing are enforceable under § 2-209 of the UCC, none of these clauses prevents a *waiver* under § 2-
 8 209(4). Wash. Rev. Code § 62A.2-209(2), (4). Accordingly, this written provision does not prevent
 9 FourGen’s conduct subsequent to the execution of the contract from constituting a waiver.

10 With respect to the transfers to non-designated computers, while Gillani’s Predecessors in
 11 interest knew about the 1997 transfer and hence waived the right to collect payment or otherwise
 12 require Daewoo to obtain authorization for that transfer, they did not know in 1997 that Daewoo would
 13 make additional transfers. As stated earlier, the party making a waiver must know of the right’s factual
 14 existence for the waiver to be effective. Accordingly, knowledge of the events in 1997 and before
 15 cannot, by itself, waive the right to collect additional licenses or fees regarding these future, yet-
 16 unknown transfers.⁵

17 The situation is somewhat different with respect to Daewoo’s knowledge regarding the
 18 configuration of the production and development servers. Here, Gillani’s predecessors in interest did in
 19 fact know that the Software was configured such that it ran on two different servers and Gillani’s
 20 predecessors in interest did not object to that configuration or request additional payment. It is not
 21 entirely clear whether the Software was initially installed on two separate servers. The only evidence
 22 offered at trial was Mr. Crouch’s testimony that the Software was accessible in Cleveland via different
 23 access points, login names, and passwords over at T-1 line from its physical location in New Jersey.

25 ⁵These subsequent transfers are analyzed separately, *infra*.

1 Because it is conceivable that software running on a single piece of hardware could have separate access
2 procedures and Mr. Crouch himself never viewed the physical installation in New Jersey, it is difficult to
3 say with certainty precisely what the physical configuration there was. What is clear is that on or before
4 the date of the move of the physical servers from New Jersey to Ohio in 1997, the Software was
5 configured on two different physical servers with the knowledge of FourGen. Mr. Crouch testified that,
6 once the computers were in Cleveland, he personally witnessed that they were configured on two
7 different servers. Daewoo representatives were working directly on the Software at Daewoo's
8 Cleveland location and thus clearly knew of this configuration.

9 Accordingly, Gillani's predecessors in interest waived the right to charge for an additional
10 license or any additional payments for this configuration by not objecting to it when the computers were
11 set up, or within a reasonable time thereafter. Because Gillani's predecessors in interest waived the right
12 to collect additional money in exchange for authorization to configure the computer on the two different
13 servers—with one server operating as the production server and one server as the development
14 server—Gillani is no longer entitled to obtain money for this dual-server configuration.

15 Thus, the only remaining issue is whether Daewoo must pay for the transfer of the Software to
16 non-designated computers in 2000, 2001, and 2004.

17 **ii. THE 1999 MEETING**

18 In 1999, one of Gillani's predecessors in interests, H.K. Systems, met with a Daewoo
19 representative and said that there was no "migration path" from the version Daewoo was using to
20 version 5.0 of the Software. The obsolescence policy in the original contract states that "[i]n the event
21 FourGen elects to no longer Support or produce Product Upgrades for the Software operating on a
22 specific Computer, FourGen will offer to Users with Software licensed on such Computers the right to
23 transfer their licenses for the Software to a comparable Computer for a modest Transfer Fee." *See*
24 discussion *supra*. H.K. Systems' conduct in the meeting with Daewoo led to the objectively valid
25 conclusion that H.K. Systems was no longer supporting Daewoo's implementation of the Software. This

1 event thus triggered the obsolescence provision, which allowed Daewoo to transfer the Software to a
 2 computer other than the Designated computer, provided that Daewoo paid a modest transfer fee.

3 Accordingly, the single issue remaining is whether Daewoo must pay a modest transfer fee for
 4 the 2000, 2001, and 2004 transfers.

5 As an alternative at this point in the analysis, the Defense also claims that Gillani's predecessors
 6 in interest "abandoned" the contract. "The parties to an express contract may abandon it and are
 7 released from their contractual obligations if the conduct of one party is inconsistent with the continued
 8 existence of the contract and that conduct is known to and acquiesced in by the other party." *Modern*
 9 *Builders, Inc. of Tacoma v. Manke*, 615 P.2d 1332, 1336-37 (Wash. Ct. App. 1980). Here, neither H.K.
 10 Systems nor Daewoo's conduct was inconsistent with the continuing existence of the License
 11 Agreement. Clearly, Daewoo still considered itself under a perpetual license and its use of the Software
 12 was still constrained by that license. Although specific terms of the agreement may have been waived,
 13 such conduct hardly constitutes changes from the original contract which are so extensive that the
 14 contract must be deemed to have been rescinded. *See id; In re Lyman's Estate*, 503 P.2d 1127, 1131
 15 (Wash. Ct. App. 1972) ("Whether the parties have mutually abandoned a contract between them
 16 depends on their mutual intention to effect such a result. . . . [A]ll parties to the contract must Assent to
 17 its rescission and there must be a Meeting of their minds.") Accordingly, neither party abandoned the
 18 contract.

19 **iii. THE 2000 TRANSFER**

20 Daewoo was able to make the 2000 transfer of the Software to new upgraded hardware after
 21 contacting FGSS, which was a value-added reseller of the Software's CASE tools. H.K. Systems was
 22 put on notice of the impending 2000 transfer in 1999. Therefore, its failure to invoke the obsolescence
 23 policy within a reasonable time after receiving notification that the Daewoo was attempting to transfer
 24 the Software to a non-designated computer means that it waived the right to collect fees for the 2000
 25 transfer.

iv. THE 2001 TRANSFER

A little over a year later, Daewoo transferred the Software again. Because there had been no further contact between Daewoo and Gillani's predecessors in interest since the 1999 meeting, Gillani's predecessors in interest could not have known about—and waived—its rights with respect to this transfer.

Nevertheless, estoppel may prevent a revocation of the waiver. Under section 2-209(5) of the UCC, “A party who has made a waiver affecting an executory portion of the contract may retract the waiver by reasonable notification received by the other party that strict performance will be required of any term waived, unless the retraction would be unjust in view of a material change of position in reliance on the waiver.” Wash. Rev. Code § 62A.2-209(5). With respect to the 2001 transfer, Gillani’s predecessors in interest never made any retraction of any earlier waiver (i.e., the waivers regarding the 1997 and 2000 transfers). As a result, Daewoo spent significant resources moving the Software to new computers in justified reliance on Gillani’s indication that it would not object to such transfers or otherwise demand payment of the transfer fee. Gillani itself only indicated it was attempting to retract the waiver several years later in 2004, well after Daewoo had justifiably relied on the continued effect of the waiver and had completed the 2001 transfer. Accordingly, Gillani is estopped from collecting even the modest transfer fee for the 2001 transfer.

v. THE 2004 TRANSFER

Like the 2001 transfer, neither Gillani nor its predecessors in interest had knowledge that Daewoo was going to conduct this transfer and thus they cannot have waived their right to collect the modest transfer fee in the same way they waived collection as to the 1997 and 2000 transfers. Nevertheless, like the 2001 transfer, Daewoo can be estopped from revoking the waiver unless it does so in a reasonable time and such a revocation would not be unjust.

However, unlike the 2001 transfer, Gillani notified Daewoo prior to the 2004 transfer that it considered any transfers to computers other than the Designated Computer to be a violation of the

1 License Agreement. The first time this was made clear to Daewoo was in a letter dated April 19,
2 2004—approximately two months prior to the June 2004 transfer that eventually took place. Daewoo
3 reiterated its belief that Gillani was in violation of its agreement in a follow-up letter dated May 28,
4 2004. These communications demand fees for Daewoo’s alleged noncompliance and clearly indicate that
5 strict performance with the written terms of the License Agreement will be required in the future. Thus,
6 these communications operate as an attempt by Gillani to revoke the previous waiver. This attempt is
7 effective only if it meets the conditions set forth in § 2-209(5) of the UCC. Given the close proximity in
8 time between when Gillani notified Daewoo that it would require strict compliance with the non-transfer
9 provision of the License Agreement and the fact that Daewoo was already in the process of moving the
10 Software to another computer, this Court finds that the notification does not constitute “reasonable
11 notification” under § 2-209(5) because it was given only after Daewoo had taken significant steps to
12 prepare for the transfer.

13 **B. COPYRIGHT INFRINGEMENT**

14 A copyright gives its holder certain rights as against the world, while a license agreement defines
15 the rights between parties with regard to a particular copyright. *See, e.g., A&M Records, Inc. v.*
16 *Napster, Inc.*, 239 F.3d 1004, 1013 (9th Cir. 2001). Here, the Court finds that the License Agreement
17 defines the rights between Daewoo and Gillani with regard to the copyrighted Software. Accordingly,
18 Gillani’s copyright claims are limited to the terms of the License Agreement and depend on whether
19 there was a breach thereof. The License Agreement grants Daewoo a perpetual license to use the
20 Software. The Court finds that Daewoo’s license has not been terminated and, therefore, is still in effect.
21 Because Daewoo is still operating under a valid license and because the Court has determined that there
22 was no breach of the License Agreement, the Court concludes that there are no grounds for a claim of
23 copyright infringement.

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26 ORDER – 18

1 **C. DAMAGES**

2 The Court, having found that Daewoo did not breach the License Agreement and that it still
3 holds a perpetual license, concludes that Gillani is not entitled to any contract or copyright damages.

4 **IV. CONCLUSION**

5 Based upon the evidence at trial, this Court concludes that Plaintiff Gillani has failed to meet its
6 burden of proof with regard to both the issues of liability and damages in this matter.

7 Accordingly, judgment will be entered in favor of Defendant Daewoo Heavy Industries America
8 Corporation on all counts of Plaintiff's complaint.

9 Finally, pursuant to Section 12(D) of the License Agreement, the prevailing party is entitled to
10 attorneys' fees and costs. The Court will take briefing on the issue of attorney's fees before entering
11 final judgment in this matter. Accordingly, Defendant is hereby directed to submit a motion for
12 attorney's fees, along with any supporting documents. Plaintiff may object to Defendant's proposal and
13 Defendant may later submit a reply. The Court will then consider the fees issue and enter final judgment.

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15 SO ORDERED this 7th day of December, 2006.

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John C. Coughenour
United States District Judge